

ISSUES PAPER

The Energy Regulatory Commission (ERC) opens the following issues for comments, inputs and suggestions preparatory to a possible revision of the Feed-in Tariff (FIT) Rules it issued on 12 July 2010 through Resolution No. 16, series of 2010:

1. Using a competitive bidding process for the FITs

Section 5 of the FIT Rules provides that the National Renewable Energy Board (NREB) shall calculate and submit the FIT to the ERC for its approval. The recommended FITs may be calculated based on a reference cost study of each technology based on a real candidate project or a hypothetical one as long as it is representative of average conditions of the RE Plant, and in consideration of all non-price incentives in R.A. 9513. The Rules also provide that the FITs should take into account the expected capacity for each technology set as installation targets, including the duration in which these targets will be achieved.

The NREB filed its recommended FITs to the ERC on 16 May 2011 and the Department of Energy's (DOE) resolution approving the final Installation Targets on 6 July 2011. Since then, the ERC has been conducting hearings on the said application.

Recently, it has been raised and suggested by Honorable Senator Sergio Osmeña in his letter addressed to Honorable Secretary Jose Rene Almendras and subsequently forwarded to the ERC that instead of using the cost-based methodology as outlined in Section 5 of the FIT Rules, the ERC may use a competitive bidding process to ensure lower FIT rates.

Sen. Osmeña likewise indicated in the said letter that the RE Act itself, specifically Section 7, did not provide for any specific ratemaking mechanism in determining the FIT, thus, it is within the ERC's mandate and jurisdiction to set the rules in the determination of the FIT, as long as the following conditions specified under the RE Act are met:

- a. Priority connections to and priority purchase and transmission of electricity to the grid;**
- b. A fixed tariff with a mandated number of years which shall not be less than twelve (12) years; and**
- c. To be used in compliance to the Renewable Portfolio Standards and the Rules that will be established by the Department of Energy (DOE).**

2. NGCP's role as settlement agent

Sections 2.5, 2.9 and 6 of the FIT Rules assigned the National Grid Corporation of the Philippines (NGCP) as the settlement agent of the FITs. The responsibilities of NGCP as such include the following:

- a. Collection and consolidation of information on energy deliveries and RE generation for the entire on-grid areas;
- b. Audit of the metering;
- c. Determination of the FIT-All to be charged to end-users, to be applied to the ERC for approval;
- d. Determination of monthly payments to each Eligible RE Plants based on actual metering;
- e. Collection and disbursement of the FIT-All fund; and
- f. Enter into an RE Payment Agreement (REPA) with Eligible RE Plants, pro-forma of which shall be issued by the ERC.

However, the legality of NGCP, being a private corporation, as the settlement agent for the FITs, is in question. It has been argued that the FIT-All fund is a public fund and hence, should not be left to the administration of a private entity. Instead, it is proposed that the said funds should be administered by a government agency. Because of this, industry stakeholders are looking at other entities that are government-owned to act as the administrator of the FIT-All Fund.

In view of this, the ERC is setting the venue for suggestions and comments on whether it should retain the NGCP as the administrator of the funds or it should designate a government-owned entity to administer the same.

3. Calculation of FIT-Allowance

Sections 2.5 and 2.6 of the FIT Rules provide for the setting by the ERC of a Feed-in Tariff Allowance (FIT-All) which is a separate uniform fee in PhP/kWh that will be charged to all end-users. Such FIT-All shall be set by the ERC annually upon petition by the NGCP who is the settlement agent of the FITs.

The FIT-All shall include the following:

- a. Forecasted annual required revenue of RE Plants;
- b. Previous years' over/ under recoveries;
- c. Administration costs;
- d. Forecasted annual electricity sales; and
- e. Allowance for working capital requirements.

The FIT-All shall be included in the following:

- a. Transmission billing of NGCP for directly-connected customers;
- b. Distribution billing statement from Distribution Utilities; and
- c. Retail Electricity Suppliers billing statements upon the implementation of Open Access and Retail Competition.

While the FIT Rules have provided for what comprises the FIT-All, the calculation of the same has yet to be provided for. For the smooth and expedient implementation of the FITs once approved by the ERC, there is a need, at this early stage, to review and set the manner by which the FIT-All will be calculated. This includes the methodology, formula and the procedure for the setting of the Fit-All. Thus, the ERC opens itself for suggestions on the appropriate procedure for the setting of the FIT-All.